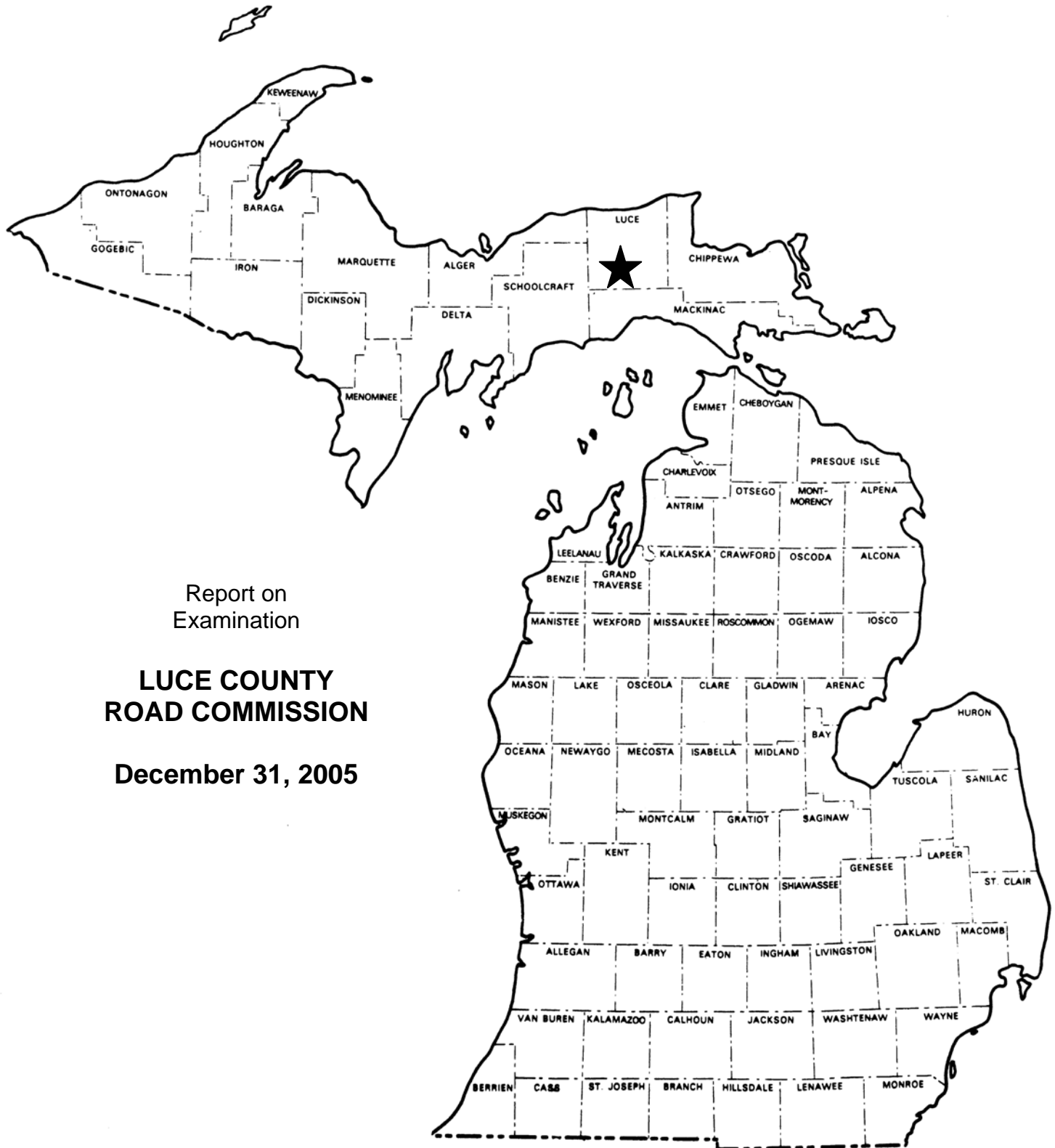


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**LUCE COUNTY
ROAD COMMISSION**

December 31, 2005

LUCE COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Robert Ottenhoff
Chairperson

Peter K. Anderson
Vice Chairperson

Telford Burton
Member

Stan Ronquist
Engineer/Manager

Gary Moulton
Office Manager

COUNTY POPULATION--2000
7,024

STATE EQUALIZED VALUATION--2005
\$257,757,066



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 15, 2006

Luce County Road Commission
Board of County Road Commissioners
P.O. Box 401
423 West McMillan Avenue
Newberry, Michigan 49868

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Luce County Road Commission, a component unit of Luce County, Michigan, as of and for the year ended December 31, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Luce County Road Commission as of December 31, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 6 and the budget comparison information included in exhibits G and H are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board and accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required

supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2006 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grant agreements' noncompliance with which could have a direct and material effect on the financial statement amounts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Luce County Road Commission, taken as a whole. The accompanying supplemental and related information in Exhibits I through K are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

LUCE COUNTY ROAD COMMISSION

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LUCE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The Luce County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the Operating Fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

LUCE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission's Major Fund

The fund financial statements begin on page nine and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets decreased approximately 1.14% or \$68,746 from \$6,009,016 to \$5,940,270 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased \$36,339 due to the decrease in Michigan Transportation Fund (MTF) funding and increasing health insurance costs. The investment in capital assets-net of related debt decreased by \$32,407 which was primarily due to the current year's depreciation.

Net assets as of year ended December 31, 2005, are as follows:

	2004	2005	Variance	Percentage
Current and Other Assets	\$ 1,655,426	\$ 1,564,680	\$ (90,746)	-5.48%
Net Capital Assets	5,032,871	5,000,464	(32,407)	-0.64%
Total Assets	6,688,297	6,565,144	(123,153)	-1.84%
Current Liabilities	225,243	264,738	39,495	14.92%
Noncurrent Liabilities	454,038	360,136	(93,902)	-26.07%
Total Liabilities	679,281	624,874	(54,407)	-8.01%
Net Assets				
Invested in Capital Assets				
Net of Related Debt	5,032,871	5,000,464	(32,407)	-0.64%
Restricted	976,145	939,806	(36,339)	-3.72%
Total Net Assets	\$ 6,009,016	\$ 5,940,270	\$ (68,746)	-1.14%

LUCE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2005 are as follows:

	2004	2005	Variance	%
Program Revenue				
License and Permits	\$ 3,345	\$ 3,810	\$ 465	13.90%
Federal Grants	263,325	151,433	(111,892)	-42.49%
State Grants	1,957,569	1,896,769	(60,800)	-3.11%
Contributions From Local Units	-	22,000	22,000	100.00%
Charges for Services	686,220	707,084	20,864	3.04%
Investment Earnings	14,699	24,674	9,975	67.86%
General Revenue				
Gain on Equipment Disposal	31,310	36,312	5,002	15.98%
Total Revenue	<u>2,956,468</u>	<u>2,842,082</u>	<u>(114,386)</u>	<u>-3.87%</u>
Expenses				
Primary Road Maintenance	1,076,564	1,017,085	(59,479)	-5.52%
Local Road Maintenance	680,276	703,345	23,069	3.39%
State Trunkline Maintenance	594,466	612,070	17,604	2.96%
Net Equipment Expense	64,967	118,022	53,055	81.66%
Net Administrative Expense	304,636	261,969	(42,667)	-14.01%
Infrastructure Depreciation	191,502	209,591	18,089	9.45%
Compensated Absences	(2,351)	(11,254)	(8,903)	378.69%
Total Expenses	<u>2,910,060</u>	<u>2,910,828</u>	<u>768</u>	<u>0.03%</u>
Increase in Net Assets	<u>\$ 46,408</u>	<u>\$ (68,746)</u>	<u>\$ (115,154)</u>	<u>-248.13%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, the fund balance of the General Operations Fund decreased \$47,593. Total operating revenues were \$2,842,082, a decrease of \$114,586 as compared to last year. This change in revenues resulted primarily from a decrease in Federal Surface Transportation Funds and State MTF revenues.

LUCE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total expenditures were \$2,889,675, an increase of \$15,333 as compared to last year. This change in expenditures is primarily the increase in capital outlay and fringe benefit costs.

	2004	2005	Variance	%
Revenues				
Licenses and Permits	\$ 3,345	\$ 3,810	\$ 465	13.90%
Federal Grants	263,325	151,433	(111,892)	-42.49%
State Grants	1,957,569	1,896,769	(60,800)	-3.11%
Contributions From Local Units		22,000	22,000	100.00%
Charges for Services	686,220	707,084	20,864	3.04%
Interest and Rents	14,699	24,674	9,975	67.86%
Other Revenue	31,510	36,312	4,802	15.24%
Total Revenues	<u>2,956,668</u>	<u>2,842,082</u>	<u>(114,586)</u>	<u>-3.88%</u>
Expenditures				
Public Works	3,071,712	2,708,845	(362,867)	-11.81%
Net Capital Outlay	<u>(197,370)</u>	<u>180,830</u>	<u>378,200</u>	<u>-191.62%</u>
Total Expenditures	<u>2,874,342</u>	<u>2,889,675</u>	<u>15,333</u>	<u>0.53%</u>
Excess of Expenditures Over Revenues	<u>82,326</u>	<u>(47,593)</u>	<u>(129,919)</u>	<u>157.81%</u>
Fund Balance--Beginning	<u>1,118,923</u>	<u>1,201,249</u>	<u>82,326</u>	<u>7.36%</u>
Fund Balance--Ending	<u><u>\$ 1,201,249</u></u>	<u><u>\$ 1,153,656</u></u>	<u><u>\$ (47,593)</u></u>	<u><u>-3.96%</u></u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

LUCE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The final revenue budget for 2005 was higher than the original budget by \$406,000. Increases were due to increases in State Trunkline maintenance due to snow maintenance and increases in other State maintenance programs. There was also an increase in local and primary expenditures due to more maintenance.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2005, the Road Commission had \$5,000,464 invested in capital assets as follows:

	2004	2005	Total Percentage Change 2004-2005
Capital Assets Not Being Depreciated			
Infrastructure--Land	\$ 39,182	\$ 39,182	0.00%
Infrastructure--Land Improvements	117,709	117,709	0.00%
Subtotal	156,891	156,891	0.00%
Capital Assets Being Depreciated			
Land Improvements	38,460	38,460	0.00%
Buildings	940,344	862,484	-8.28%
Road Equipment	4,269,686	4,347,756	1.83%
Shop, Office and Engineer Equipment	297,918	297,918	0.00%
Infrastructure	4,183,872	4,452,155	6.41%
Subtotal	9,730,280	9,998,773	2.76%
Total Capital Assets	9,887,171	10,155,664	2.72%
Total Accumulated Depreciation	(4,854,300)	(5,155,200)	6.20%
Total Net Capital Assets	\$ 5,032,871	\$ 5,000,464	-0.64%

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$268,283. The infrastructure recorded, during 2005, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

LUCE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

This year's major capital asset additions included the following:

Various Resurfacing Projects and Related Land/Right-of-Way	\$ 268,283
Trucks/Equipment	<u>180,830</u>
Total Additions	<u><u>\$ 449,113</u></u>

There were no installment purchase agreements entered into during 2005. All the equipment was acquired with Road Commission funds.

During 2005, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$180,620, related depreciation of \$180,620, and net book value of \$0.

Debt

The Road Commission currently experiences a relatively debt free status. The Road Commission currently has long-term debt in the amount of \$213,850, a decrease of \$11,254 from the prior year, which represents compensated absences payable at December 31, 2005.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derives approximately 66% of its revenues from the fuel tax collected. The economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed. The Road Commission is considering reducing labor costs through attrition and adjustments to health care insurance to offset revenue declines.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Luce County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Luce County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Luce County Road Commission administrative offices at 423 West McMillan Avenue, Newberry, MI 49868, (906) 293-5741.

LUCE COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2005

EXHIBIT A

ASSETS

Cash	\$ 392,373
Investments	508,337
Accounts Receivable	
Sundry Accounts	7,281
State--Trunkline Maintenance	71,519
Michigan Transportation Fund	253,698
Inventories	
Road Materials	146,702
Equipment Parts and Materials	128,613
Prepaid Expenses	56,157
Capital Assets (Net of Accumulated Depreciation)	<u>5,000,464</u>
Total Assets	<u>6,565,144</u>

LIABILITIES

Current Liabilities	
Accounts Payable	669
Due to State of Michigan	768
Due to Employees	902
Accrued Liabilities	60,616
Deferred Revenue	
Forest Road Funds	201,783
Noncurrent Liabilities	
Advances From State	146,286
Vested Employee Benefits Payable	<u>213,850</u>
Total Liabilities	<u>624,874</u>

NET ASSETS

Investment in Capital Assets--Net of Related Debt	5,000,464
Restricted for County Roads	<u>939,806</u>
Total Net Assets	<u>\$ 5,940,270</u>

The Notes to Financial Statements are an integral part of this statement.

LUCE COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,017,085
Local Road Maintenance	703,345
State Trunkline Maintenance and Nonmaintenance	612,070
Net Equipment Expense	118,022
Net Administrative Expense	261,969
Infrastructure Depreciation	209,591
Compensated Absences	<u>(11,254)</u>
Total Program Expenses	<u>2,910,828</u>
Program Revenue	
Charges for Services	
License and Permits	3,810
Charges for Services	707,084
Operating Grants and Contributions	
Michigan Transportation Funds	1,800,632
Investment Earnings	24,674
Capital Grants and Contributions	
Federal Grants	151,433
State Grants	96,137
Contributions From Local Units	<u>22,000</u>
Total Program Revenue	<u>2,805,770</u>
Net Program Revenue	<u>(105,058)</u>
General Revenue	
Gain on Equipment Disposal	<u>36,312</u>
Total General Revenue	<u>36,312</u>
Change in Net Assets	<u>(68,746)</u>
Net Assets	
Beginning of Year	<u>6,009,016</u>
End of Year	<u><u>\$ 5,940,270</u></u>

The Notes to Financial Statements are an integral part of this statement.

LUCE COUNTY ROAD COMMISSION
BALANCE SHEET
December 31, 2005

EXHIBIT C

	GOVERNMENTAL FUND TYPE
	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash	\$ 392,373
Investments	508,337
Accounts Receivable	
State Trunkline Maintenance	71,519
Michigan Transportation Fund	253,698
Sundry Accounts	7,281
Inventories	
Road Materials	146,702
Equipment Parts and Materials	128,613
Prepaid Expenses	<u>56,157</u>
Total Assets	<u><u>\$ 1,564,680</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 669
Accrued Liabilities	60,616
Due to Employees	902
Due to State	768
Advances	
Trunkline Equipment Purchase	100,802
Trunkline Maintenance	45,484
Deferred Revenue--Forest Road	<u>201,783</u>
Total Liabilities	<u>411,024</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	275,315
Unreserved and Undesignated	<u>878,341</u>
Total Fund Equities	<u>1,153,656</u>
Total Liabilities and Fund Equities	<u><u>\$ 1,564,680</u></u>

The Notes to Financial Statements are an integral part of this statement.

**LUCE COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2005**

EXHIBIT D

Total Governmental Fund Balance	\$1,153,656
---------------------------------	-------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,000,464
---	-----------

The long-term liability for vested employee benefits payable not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(213,850)</u>
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Net Assets of Governmental Activities	<u><u>\$5,940,270</u></u>
---------------------------------------	---------------------------

The Notes to Financial Statements are an integral part of this statement.

LUCE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2005

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Permits	\$ 3,810
Federal Grants	151,433
State Grants	1,896,769
Contributions From Local Units	22,000
Charges for Services	707,084
Interest and Rents	24,674
Other Revenue	<u>36,312</u>
Total Revenues	<u>2,842,082</u>
Expenditures	
Public Works	2,708,845
Capital Outlay	<u>180,830</u>
Total Expenditures	<u>2,889,675</u>
Excess of Revenues Over (Under) Expenditures	<u>(47,593)</u>
Fund Balance--January 1, 2005	<u>1,201,249</u>
Fund Balance--December 31, 2005	<u><u>\$ 1,153,656</u></u>

The Notes to Financial Statements are an integral part of this statement.

**LUCE COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ (47,593)

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

(32,407)

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)

11,254

Change in Net Assets of Governmental Activities

\$ (68,746)

The Notes to Financial Statements are an integral part of this statement.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Luce County Road Commission, which was established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt or property taxes without the county board of commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Luce County Road Commission, a discretely presented component unit of Luce County, and include the Road Commission Operating Fund.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Luce County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories and Prepaid Items

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction and equipment maintenance, and repairs and operations as used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Luce County Road Commission as assets with an initial individual cost of more \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Deferred Revenue

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, Michigan Compiled Laws (MCL) 141.421 which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (engineer/manager) prepares and submits a proposed operating budget to the board of county road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The board has authorized the chief administrative officer to amend the Road Commission budget, when necessary, without increasing the overall budget, by transferring up to 15% from one line-item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE D--DEPOSITS AND INVESTMENTS

MCL 129.91 authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated seven financial institutions for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 392,273
Investments	508,337
Petty Cash and Cash on Hand	<u>100</u>
Total	<u>\$ 900,710</u>

The bank balance of the Road Commission's deposits is \$500,883, of which \$207,834 is covered by Federal depository insurance.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to money markets, multi-bank securities, and municipal investment funds.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

As of December 31, 2005, the Road Commission had the following investments:

	<u>Reported Amount (Fair Value)</u>
Investments	
Money Markets	\$ 99,710
Multi-Bank Securities	199,000
MBIA CLASS--Municipal Investment Fund	104,724
Bank One--Municipal Investment Fund	<u>104,903</u>
Total Primary Government	<u><u>\$ 508,337</u></u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	Account Balances 01/31/05	Additions	Deductions	Account Balances 12/31/05
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 39,182			\$ 39,182
Infrastructure Land Improvements	117,709			117,709
Subtotal	156,891	\$ -	\$ -	156,891
Capital Assets Being Depreciated				
Land Improvements	38,460			38,460
Buildings	940,344		77,860	862,484
Road Equipment	4,269,686	180,830	102,760	4,347,756
Shop Equipment	234,331			234,331
Office Equipment	44,197			44,197
Engineers' Equipment	19,390			19,390
Infrastructure--Bridges	756,552	266,868		1,023,420
Infrastructure--Roads	3,427,320	1,415		3,428,735
Total	9,730,280	449,113	180,620	9,998,773
Less Accumulated Depreciation				
Land Improvements	13,297	1,281		14,578
Buildings	343,796	30,181	77,860	296,117
Road Equipment	3,768,320	225,057	102,760	3,890,617
Shop Equipment	174,266	13,023		187,289
Office Equipment	37,591	2,250		39,841
Engineers' Equipment	19,228	138		19,366
Infrastructure--Bridges	36,434	15,515		51,949
Infrastructure--Roads	461,368	194,075		655,443
Total	4,854,300	481,520	180,620	5,155,200
Net Capital Assets Being Depreciated	4,875,980	449,113	481,520	4,843,573
Total Net Capital Assets	<u>\$5,032,871</u>	<u>\$449,113</u>	<u>\$ 481,520</u>	<u>\$5,000,464</u>

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$225,057
Indirect Equipment	36,551
Net Administrative Expenses	
Building	8,072
Office Equipment	2,250
Infrastructure Depreciation Expense	<u>209,590</u>
Total Depreciation Expense	<u><u>\$481,520</u></u>

NOTE F--LONG-TERM DEBT

The changes in long-term debt of the Road Commission may be summarized as follows:

	Balance 01/01/05	Additions (Reductions)	Balance 12/31/05
Vested Employee Benefits			
Vacation Benefits	\$ 72,667	\$ (3,129)	\$ 69,538
Sick Leave Benefits	<u>152,437</u>	<u>(8,125)</u>	<u>144,312</u>
Totals	<u><u>\$225,104</u></u>	<u><u>\$ (11,254)</u></u>	<u><u>\$213,850</u></u>

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. New employees are eligible for vacation benefits after 1 year of service, and vacation benefits accrue on a biweekly pay period basis thereafter. Employees may accumulate up to a maximum of 2 years vacation benefits.

Sick Leave Benefits

Road Commission employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with an unlimited accumulation. Employees hired prior to July 1, 1981, upon voluntary termination with ten working days notice, retirement, or death of an employee in the service of the Road Commission, shall be paid for 100% of any accumulated unused sick leave up to a maximum of 160 days.

Employees hired after July 1, 1981 will receive payment for 1/2 of their unused accumulated sick leave up to a maximum of 60 days, upon retirement only.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Luce County Road Commission for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE H--EMPLOYEE RETIREMENT PLAN

Description of Plan and Plan Assets

The Luce County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post-retirement adjustments to plan members and their beneficiaries. For the engineer/manager, the service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. For general employees, the service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission is required to contribute at actuarially determined rates; the current rates were 16.62% for the engineer/manager and 22.27% for general employees at December 31, 2004.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEE RETIREMENT PLAN (Continued)

Annual Pension Cost

During the calendar year ended December 31, 2004, the Road Commission's contributions totaling \$172,847 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2002. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 174,894	100%	\$0
2003	182,261	100%	\$0
2004	172,847	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/02	\$ 3,710,211	\$5,563,174	\$ 1,852,963	67%	\$ 890,280	208%
12/31/03	3,896,539	6,032,626	2,136,087	65%	868,162	246%
12/31/04	4,013,444	6,331,712	2,318,268	63%	860,551	269%

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and participates in the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan. It authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to general liability coverage, auto liability coverage, property insurance coverage, stop-loss insurance protections, claims administration, risk management, and loss control services pursuant to Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions, bodily injury, property damage, and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At December 31, 2005, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE J--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note H, the Luce County Road Commission provides post-employment health care and cancer insurance benefits to all retired employees and/or their spouse and life insurance benefits for the retiree only. The benefits are provided in accordance with Article 34 (a), (b) and (c) of the union agreement, which includes the provision that upon a retiree and/or spouse's eligibility for Medicare, the Road Commission agrees to pay for the supplemental health insurance coverage for both.

For employees hired prior to September 1, 1998, the Road Commission agrees to pay the premium for each employee and spouse at time of retirement. Upon eligibility for Medicare, the Employer agrees to pay for Blue Cross/Blue Shield supplemental coverage for both the retiree and his spouse.

For all employees hired after September 1, 1998, the Road Commission agrees to pay 4% of the premium for each employee at time of retirement for each year of service said employee has spent with the Road Commission. Said employee may elect to have coverage provided to his spouse at the employee's expense.

In order for an employee to be eligible to health care benefits at retirement, the employee must retire from active service with the Road Commission at age 60 with 10 years of service or at age 55 with 25 years of service.

During 2005, 29 retirees and/or spouses were eligible for the post-employment health care benefits at a cost of \$277,501; 29 retirees and/or spouses were eligible for cancer insurance benefits at a cost of \$5,334; and 17 retirees were eligible for life insurance benefits at a cost of \$2,480. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis.

NOTE L--STATE TRUNKLINE MAINTENANCE REVENUE

The \$85,399 difference between the State Trunkline maintenance revenues of \$645,455 and expenditures of \$560,056 is primarily due to the Michigan Department of Transportation (MDOT) trunkline maintenance settlement agreement regarding liability insurance on the State Trunkline audits from 1996 through 2002 in the amount of \$85,399.

LUCE COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2005

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 3,400	\$ 3,900	\$ 3,810	\$ (90)
Federal Grants				
Surface Transportation Program		152,000	151,433	(567)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,175,000	1,152,750	1,152,553	(197)
Local Road	465,000	458,250	458,110	(140)
Snow Removal	166,000	180,000	179,969	(31)
Economic Development Funds				
Forest Funds (E)		97,000	96,137	(863)
Contributions--Local Units				
Townships		22,000	22,000	-
Charges for Services				
State Trunkline Maintenance	430,000	646,000	645,455	(545)
State Trunkline Non-Maintenance	45,000	53,000	52,014	(986)
Salvage Sales		3,400	3,372	(28)
Other Charges for Services	8,000	6,300	6,243	(57)
Interest and Rents				
Interest Earned	15,000	25,000	24,674	(326)
Other Revenue				
Gain on Equipment Disposals	20,000	37,000	36,312	(688)
Total Operating Revenue	2,337,400	2,846,600	<u>\$ 2,842,082</u>	<u>\$ (4,518)</u>
Fund Balance--January 1, 2005	<u>1,311,156</u>	<u>1,311,156</u>		
Total Budget	<u>\$ 3,648,556</u>	<u>\$ 4,157,756</u>		

LUCE COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2005

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements		\$ 1,500	\$ 1,415	\$ 85
Routine and Preventive Maintenance	\$ 1,009,000	1,023,700	1,013,861	9,839
Local Road				
Routine and Preventive Maintenance	643,000	707,100	698,419	8,681
Primary Road Structure				
Preservation/Structural Improvements		208,500	208,146	354
Routine and Preventive Maintenance		3,300	3,224	76
Local Road Structures				
Preservation/Structural Improvements		59,000	58,723	277
Routine and Preventive Maintenance		5,000	4,926	74
State Trunkline Maintenance	430,000	561,000	560,056	944
State Maintenance--Other	45,000	53,000	52,014	986
Equipment Expense--Net	130,000	120,000		
Direct			\$ 515,266	
Indirect			293,249	
Operating			178,216	
Less: Equipment Rentals			(868,709)	1,978
Administrative Expense--Net	270,000	262,000		
Administrative Expense			325,389	
Less: Handling Charges			(4,908)	
Overhead--State Trunkline			(58,512)	31
Capital Outlay--Net	(20,000)	(91,100)		
Capital Outlay			180,830	
Less: Depreciation Credits			(271,930)	
Equipment Retirements			-	-
Total Expenditures	2,507,000	2,913,000	\$ 2,889,675	\$ 23,325
Fund Balance--December 31, 2005	1,141,556	1,244,756		
Total Budget	\$ 3,648,556	\$ 4,157,756		

LUCE COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2005

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 1,389,820	\$ 795,235	\$ 657,027	\$ 2,842,082
Total Expenditures	1,331,893	806,795	750,987	2,889,675
Excess of Revenues Over (Under) Expenditures	57,927	(11,560)	(93,960)	(47,593)
Other Financing Sources (Uses) Optional Transfers	(23,040)	23,040		-
Total Other Financing Sources (Uses)	(23,040)	23,040	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	34,887	11,480	(93,960)	(47,593)
Fund Balance--January 1, 2005	388,441	28,256	784,552	1,201,249
Fund Balance--December 31, 2005	\$ 423,328	\$ 39,736	\$ 690,592	\$ 1,153,656

LUCE COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
For the Year Ended December 31, 2005

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits		\$ 3,810		\$ 3,810
Federal Grants				
Surface Transportation Program	\$ 151,433			151,433
State Grants				
Michigan Transportation Fund				
Engineering	7,200	2,800		10,000
Allocation	1,152,553	458,110		1,610,663
Snow Removal		179,969		179,969
Economic Development Funds				
Forest Funds (E)	59,414	36,723		96,137
Contributions--Local Units				
Townships		22,000		22,000
Charges for Services				
State Trunkline Maintenance		85,399	\$ 560,056	645,455
State Trunkline Non-Maintenance			52,014	52,014
Salvage and Material Sales		3,372		3,372
Other Charges for Services			6,243	6,243
Interest and Rents				
Interest Earned	7,896	493	16,285	24,674
Other Revenue				
Gain on Equipment Disposal	11,324	2,559	22,429	36,312
Total Revenue	\$ 1,389,820	\$ 795,235	\$ 657,027	\$ 2,842,082

LUCE COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2005

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 1,415			\$ 1,415
Routine and Preventive Maintenance	1,013,861			1,013,861
Local Road				
Routine and Preventive Maintenance		\$ 698,419		698,419
Primary Road Structures				
Preservation/Structural Improvements	208,146			208,146
Routine and Preventive Maintenance	3,224			3,224
Local Road Structures				
Preservation/Structural Improvements		58,723		58,723
Routine and Preventive Maintenance		4,926		4,926
State Trunkline Maintenance			\$ 560,056	560,056
State Maintenance--Other			52,014	52,014
Equipment Expense--Net (Per Exhibit H)	47,693	37,850	32,479	118,022
Administrative Expense--Net (Per Exhibit H)	161,584	100,385		261,969
Capital Outlay--Net (Per Exhibit H)	(104,030)	(93,508)	106,438	(91,100)
Total Expenditures	\$ 1,331,893	\$ 806,795	\$ 750,987	\$ 2,889,675



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 15, 2006

Luce County Road Commission
Board of County Road Commissioners
P.O. Box 401
423 West McMillan Avenue
Newberry, Michigan 49868

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Luce County Road Commission, a component unit of Luce County as of and for the year ended December 31, 2005, and have issued our report thereon dated March 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Luce County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Luce County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such

an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Luce County Board of County Road Commissioners management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division